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TO RUEHC/SECSTATE WASHDC PRIORITY 1365  
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RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY

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E.O. 12958: N/A

TAGS: [EAID](#) [KFPC](#) [KN](#) [KNNP](#) [KUNC](#) [PINR](#) [PREL](#) [UNDP](#)  
SUBJECT: (SBU) ACTION REQUEST: UNDP ADMITS TO POSSESSION OF  
U.S. COUNTERFEIT CURRENCY RECEIVED DIRECTLY FROM THE DPRK,  
AND SEEKS INSTRUCTION ON HANDLING OF COUNTERFEIT CURRENCY

REF: A. STATE 9494

- [1](#)B. USUN 55
- [1](#)C. STATE 8922
- [1](#)D. USUN 51
- [1](#)E. USUN 50
- [1](#)F. WARLICK/WOLFF TELCONS

[1](#)1. (SBU) This is an action request (see para 3). In the most recent communication between USUN and UNDP regarding the DPRK country programme (reftels), dated February 15, 2007, UNDP Associate Administrator Ad Melkert admits UNDP possession of counterfeit U.S. currency received directly from the DPRK. USUN requests guidance on the response to Melkert's request for advice on how to appropriately handle the custody and control of counterfeit currency and its turnover to the United States government. Although the letter contains interesting references to Ambassador Wallace's inquiries into UNDP please see the third from last paragraph of the letter relating to the counterfeit currency. USUN will make further inquiry and seek additional clarification into the existence of counterfeit U.S. currency in UN DPRK country programs.

[1](#)2. (SBU) Text of February 15, 2007 letter from UNDP Associate Administrator Ad Melkert to Ambassador Mark D. Wallace:

Dear Mr. Ambassador,

Thank you for your letter of 25 January 2007. The agreement reached by the full Executive Board on 25 January 2007, with respect to the DPRK country programme, was an important one which will guide our work in the near future.

The Administrator and I have taken note of your continued concerns. In particular, I would like to refer to the following statements you made:

- "UNDP's decision to enforce its rules to no longer make hard currency payment to the (DPRK) government (...);"
- "Under existing rules, UNDP should not be making direct cash payments (cash, check or wire) or "advance payments" to the DPRK government for any (including NEX) programs (...);"
- "Your letter notes that the Country office maintains on record the Evaluation of Audit of NEX annual letters. This presupposes that DPRK government audits are reliable (...);"

The rules that you refer to do not exist in the way you represent them, nor do these statements seem to take into account explanations we have proved you in previous correspondence. I would greatly appreciate it if you would not confuse the meaning of maintaining the Evaluation of Audit of NEX annual letters with your judgment on the

credibility of government audits. The latter is the task of internal and external auditors. The evaluation of Audit of NEX annual letters as such is a normal requirement that I mentioned to you in order to allay your concerns about UNDP not adhering to standing procedures.

I would furthermore like to clarify a couple of points which I believe warrant a response.

1) US concern: "we are not aware, of any effort by UNDP to bring concerns regarding the DPRK country programme to the Executive Board's attention.....We are not aware of any case in which the Board of Auditors annual report referred to any such concerns identified in your internal audits about the DPRK" and ".....no annual report of the Board (of Auditors) since 1998 reflects such concerns, nor do they contain any reference to the UNDP DPRK country programme."

First, I would like to refer to page 104 (paragraph 431) of the most recent report of the Board of Auditors A/61/5/Add 1 in which a reference was made to implementation rates for audit recommendations of less than 60 per cent, including the Democratic People's Republic of Korea (54 per cent). Since this rating was noted on 31 December 2005, I am pleased to inform you that the current rate of implementation of audit recommendations has increased from 54% to 76% -- as at 31 December 2006.

With regard to UNDP's efforts, I would like to refer to the many management actions that have been undertaken on the basis of internal audit reports as mentioned in our previous correspondence.

2) US request: to review the DPRK government audits

On the basis of standing NEX procedures, audit reports

submitted by Governments for their NEX projects are confidential and contribute to the reporting by internal

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auditors and the independent external UN Board of Auditors in their respective roles. However, as stated before the Executive Board, there will be consultations within the CEB on procedures related to access to internal audit reports.

3) US concern: "UNDP pays rent to the DPRK for at least some of its country office expenses.....we seek more information regarding DPRK's GLOC contributions, which you state amount to only 45% of its obligation - another violation of UNDP rules."

I would like to refer you to the annex of my letter of 21 January 2007 in which you will note the GLOC payments by the DPRK since 2000. Please note that in addition DPRK has also made available, free of rent, a two floor building near the UNDP office in which several project offices and staff are accommodated. DPRK has made a partial payment of its GLOC contribution and we expect them to contribute the remaining portion.

4) US request to learn more about the "practical arrangements" to "help ensure adequate controls on the functions of local DPRK government staff."

With regard to the "practical arrangements" that have been made to put adequate controls on the functions of local DPRK government staff, I have ensured that action be taken such that no national staff has the authority to make resource allocation decisions or commitments on behalf of UNDP, and that only international staff have approving rights in Atlas (our financial system).

5) Modalities of the external audit

Your letter makes reference to the modalities of the

independent external audit. Since your letter was written in advance of the discussion at the Executive Board, you will note that I stated before the Executive Board on Thursday 25 January 2007 that the external audit will be conducted in compliance with international standards of auditing and within the provisions of Article VII of the United Nations financial regulations governing activities of the UN Board of Auditors. As you will know, on 9 February 2007 the ACABQ requested the Board of Auditors to carry out a "special audit of the operations of the United Nations organizations" in the DPRK. We will of course fully cooperate in facilitating the Board of Auditors' task.

Before concluding, I would like to revert to a question that was raised in the meeting of 22 December 2006. Subsequent clarification from the Regional Bureau and Country Office has brought information on a matter dating to before 1998 (1995/1996) concerning USD bank notes that had been returned by a UNDP consultant from Egypt after his bank had rejected the notes. These notes were subsequently not accepted back by the DPRK Foreign Trade Bank (from where they were originally received). While the notes (with a total value of \$3,500) do not belong to UNDP, they have been kept in the office safe since that time. I would appreciate your advice, possibly involving the Federal Reserve, how this matter could be dealt with appropriately.

Finally, I would like to inform you that upon my request, last week our Resident Coordinator reported in person in New York so as to be fully updated on the concerns raised by Executive Board members and in order to ensure consistent follow-up to the Executive Board decisions.

I hope that the above clarifications satisfy your concerns. However, I believe for both of us it will be important to await the outcome of the DPRK audit that will take place under the Secretary-General's auspices. Any additional points would therefore be best considered as part of that further process. Meanwhile, I count on your trust in UNDP management to follow-up on the steps agreed with the Executive Board.

Yours sincerely,

(Signed) Ad Melkert

13. (SBU) ACTION REQUEST: USUN seeks expeditious guidance on the instructions to give UNDP on the turnover of the counterfeit currency to the United States government.  
WOLFF